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Labor and Human Resources, U.S. Senate

January 1992

STUDENT FINANCIAL AID

Most Supplemental Educational Opportunity Grants Are Awarded to Needy Students

GAO/HRD-92-37

GAO

United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

B-246892

January 31, 1992

The Honorable Edward M. Kennedy
Chairman, Committee on Labor
and Human Resources
United States Senate

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Student Financial Aid: Most Supplemental Educational Opportunity Grants Are Awarded to Needy Students

Dear Mr. Chairman:

The Higher Education Amendments of 1986 (P.L. 99-498) direct that postsecondary institutions award Supplemental Educational Opportunity Grants (SEOGs) first to undergraduate students with exceptional need who are Pell Grant recipients and then, if funds remain, to other students with exceptional financial need.[1] The law defines students with exceptional financial need as those students with the lowest expected family contribution (EFC) at the institution. The EFC is a calculation of the amount a family is expected to contribute to meet the student's cost of education.

Before the 1986 amendments, institutions could award some SEOGs to students who did not have low EFCs but had high unmet financial need (total cost of education minus available resources) resulting, for example, from high tuition. Thus, using a low EFC as a criterion for awarding SEOGs favors students from low-income families regardless of their unmet need. In comparison, using unmet need as a criterion favors students who need a substantial amount of additional funds to pay for their education regardless of their EFC.

You asked us to determine if SEOGs are first being awarded to Pell Grant recipients, beginning with those with the lowest EFC, and then to non-Pell Grant recipients with the lowest EFCs. We also agreed to analyze the Department of Education's data on SEOG distributions to institutions and their students.

On July 24, 1991, we discussed the results of our analysis with your office. This report summarizes and expands on the information provided at that meeting.

[1]Pell Grants, funded entirely by the federal government, help high need students finance their post-secondary educations.

Results in Brief

Most SEOG dollars are going to intended recipients—students with Pell Grants beginning with those with the lowest EFCs. However, some institutions awarded a small portion of their SEOG funds in a way that is inconsistent with federal requirements.

Also, the law requires that SEOG funds be first distributed to institutions based on previous years' expenditures, not in proportion to total Pell Grant awards or aggregate students' financial needs at an institution. Any SEOG funds remaining in the SEOG appropriation are then distributed among the institutions on the basis of relative student financial need. Thus, the amount of an SEOG that a student may receive may depend largely on which institution the student attends.

Background

The SEOG program was originally enacted by the Education Amendments of 1972 (P.L. 92-318). These amendments renamed the Educational Opportunity Grant Program the Supplemental Educational Opportunity Grant Program and made it a supplement to the Basic Educational Opportunity Grant Program (later renamed the Pell Grant Program). SEOGs are to assist in making available the benefits of postsecondary education to qualified students who demonstrate exceptional financial need.

Approximately 4,300 institutions participate in the SEOG program. The cost of SEOGs is shared between the institutions and the federal government—financed 85 percent with federal funds and 15 percent with nonfederal funds. The Department of Education distributes federal funds to the institutions based on a legislative formula that guarantees that institutions receive at least the same funding level they expended in the 1985-86 school year (before the 1986 amendments). Each institution administers its program and distributes grants to its students. Students apply for SEOG funds annually.

The law requires that institutions award SEOGs to those eligible students who received a Pell Grant, starting with students having the lowest EFCs. If SEOG funds remain after being distributed to all Pell Grant recipients, institutions are to award SEOGs to the remaining eligible students, starting with those with the lowest EFCs.

The measure of exceptional financial need is the student's EFC. The EFC is derived from a detailed legislative formula, called the Congressional Methodology, that considers the family's ability to pay for the student's education by measuring such characteristics as income and assets.

Institutions have considerable freedom within federal requirements in how they distribute their SEOG funds among eligible students. For example, an institution can award the minimum $100 SEOG to all of its eligible Pell Grant recipients and use any remaining funds to award SEOGs to students that do not have a Pell Grant, starting with those with the lowest EFCs. In contrast, another institution could award the maximum $4,000 SEOG to students with Pell Grants, starting with the lowest EFCs until it has used all its funds, thus reaching fewer students but awarding them larger grants.

Federal SEOG funding has averaged about 10 percent of the funding appropriated for Pell Grants during the last 7 years. For example, for the 1990-91 school year, SEOG funding was $488 million and Pell Grant funding was $4.7 billion. During that school year, 835,000 students received SEOGs averaging $700 and 3.5 million students received Pell Grants averaging $1,424.

Scope and Methodology

We obtained data from a 1991 Department of Education study that was based on a sample of 25,000 undergraduate students who received some form of financial assistance during the 1989-90 school year.[2] The nationally representative sample of students was drawn from more than 1,100 postsecondary institutions throughout the country.

We also developed information from a judgmental sample of 10 public and 10 private 4-year institutions that each received federal SEOG funds of $1 million or more, and were among the 45 institutions receiving the most SEOG funds in the 1990-91 school year. Together, these 20 institutions received about 9 percent of all SEOG funds in that year. We did not analyze the SEOGs at these institutions in detail to determine the extent to which they went to students with low EFCs. However, we did discuss with each institution's financial aid administrator the practices they used in awarding SEOG funds.

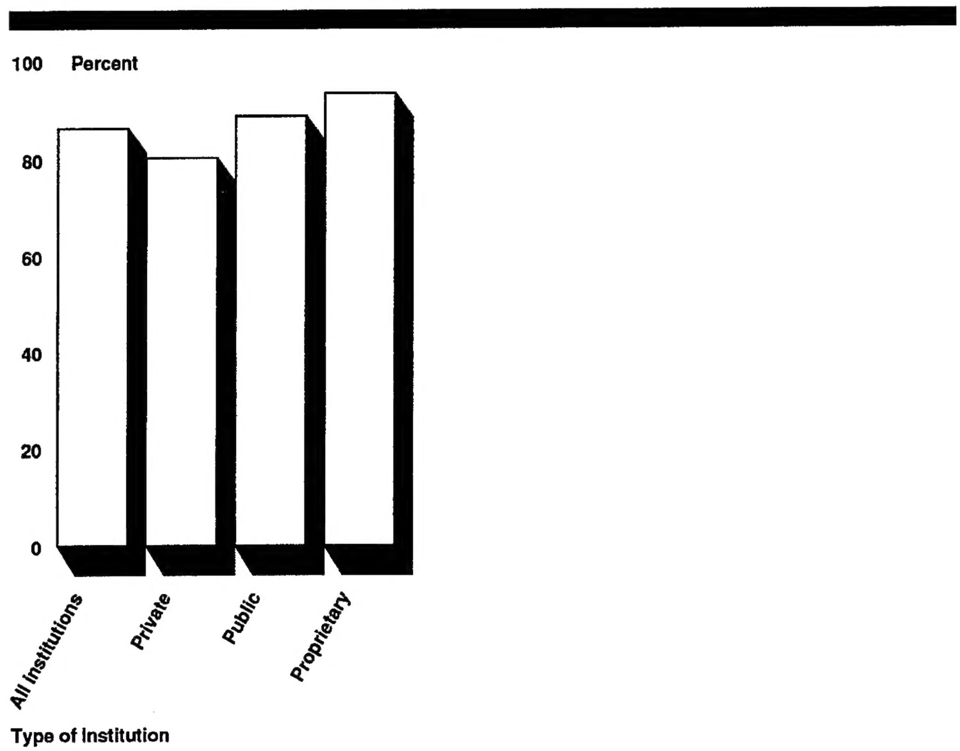
Our review was conducted between April and August 1991 in accordance with generally accepted government auditing standards.

[2] National Postsecondary Student Aid Study: Preliminary Estimates on Student Financial Aid Recipients, 1989-90.

Most SEOG Awards Go to Pell Grantees

Over 86 percent of SEOG funds were awarded to students that also received Pell Grants in the 1989-90 school year. (See fig. 1.) In addition, more students attending proprietary (for-profit trade) institutions received both SEOG and Pell Grant funds—93 percent—than did students enrolled at other types of institutions, such as 4-year public and private institutions.

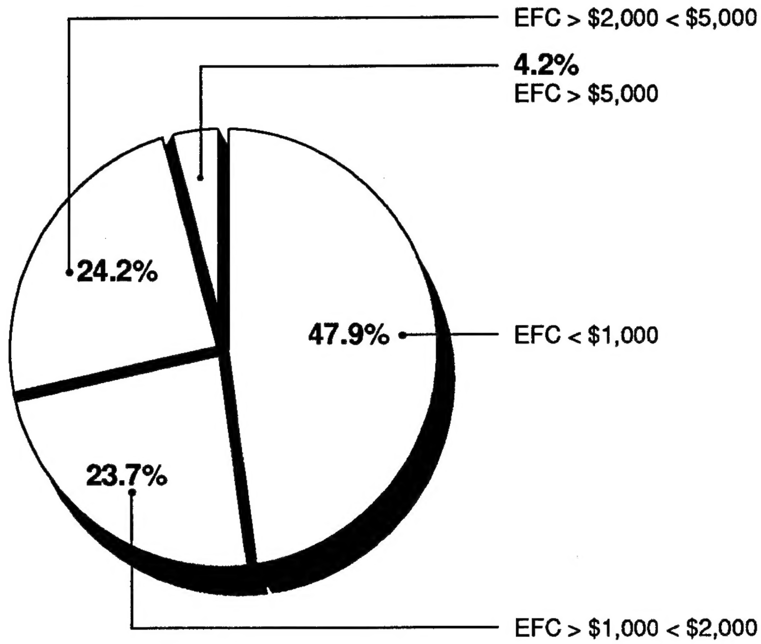
Figure 1: Students Receiving SEOGs Who Also Received Pell Grants, by Type of Institution Attended (School Year 1989-90)



Most Students Awarded SEOGs Have Low EFCs

Almost 96 percent of students that received SEOGs in the 1989-90 school year had EFCs of under $5,000. Figure 2 also shows that about 48 percent of the students had EFCs of under $1,000.

Figure 2: Distribution of SEOGs by Students' EFC (School Year 1989-90)



Major Reasons SEOGs Were Awarded to Students Who Did Not Have a Pell Grant

Fifteen of the 20 institutions we surveyed awarded SEOGs to some students who had not received a Pell Grant during the same school year. After awarding SEOGs to Pell Grant recipients, financial aid administrators at 10 of the 15 institutions said that some of their students also received SEOGs because they have a high unmet financial need.

One financial aid administrator said that after awarding SEOGs to those Pell Grant recipients who were eligible, 25 percent of the institution's SEOGs were awarded to students who had not received a Pell Grant. Most of these awards were based on the students' remaining unmet financial needs and not on the proper criteria—EFC. The administrator told us that this institution uses SEOGs to help out-of-state students cover part of the additional tuition—about $9,000 annually—they pay as out-of-state residents.

Table 1 illustrates how using remaining unmet need for awarding SEOGs could result in awarding an SEOG to a student with greater financial resources at the expense of a poorer student. The in-state student is from the poorer family—the family's EFC is $2,000, which is one-third of the out-of-state student's EFC. However, the out-of-state student attending the same institution has higher costs ($20,000 vs. $11,000), and, therefore, a higher unmet need ($14,000 vs. $9,000). The institution would award the

grant to the out-of-state student from the higher-income family by using the student's unmet need as the criterion for awarding an SEOG.

Table 1: Comparison of EFC and Unmet Financial Need as Criteria for Awarding SEOGs

	Out-of-state student	In-state student
Total institution cost	$20,000	$11,000
EFC	6,000	2,000
Remaining unmet need	$14,000	$9,000

Other reasons financial aid administrators cite for institutions awarding SEOGs to students not receiving a Pell Grant include: (1) the student's family suffered catastrophic income loss after the Department selected its Pell Grant awardees; and (2) the student was technically eligible for a Pell Grant but did not receive it because of an administrative error, such as the student's failure to fully complete the financial aid application or submit the application on time.

The Department Reaffirms Legislative Requirements for Awarding SEOGs

The Department of Education reaffirmed the Higher Education Act's criteria that SEOGs be awarded first to Pell Grant recipients, starting with those with the lowest EFCs, in a May 1991 letter to participating institutions. If the institution has SEOG funds remaining, it could then award SEOGs to students without a Pell Grant, starting with those with the lowest EFCs.

We could not yet determine whether the Department's May letter has resulted in better targeting of SEOGs. If institutions follow the Department's guidance, their selection of SEOG recipients will comply with the 1986 amendments.

Institutions' Ratios of SEOG to Pell Grant Funds Varied

Although SEOGs are supplements to Pell Grants, we found that the amount of SEOG funds an institution receives compared to the dollar amount of Pell Grants an institution's students receive varies widely from institution to institution. The amount of SEOG funds students receive may depend on what institutions they attend.

For example, during the 1990-91 school year, the amount of SEOG funds received by the 20 institutions in our sample, compared to aggregate Pell Grant awards to their students, ranged from 5 to 164 percent. During the year, federal funds for SEOGs were 10.4 percent of total Pell Grant awards.

The varying ratios are primarily the result of the requirement of the 1986 amendments that the Department distribute SEOG funds based largely on institutions' previous SEOG expenditures.

Appendix I lists SEOG and Pell Grant funding ratios for each of the 20 institutions and illustrates the variations in the ratios.

This method of distributing SEOGs may result in the amount of an SEOG awarded to a Pell Grant recipient depending more on which institution he or she attends than on the amount of his or her Pell Grant. For example, one institution received SEOG funds during the 1990-91 school year that were 144 percent of total Pell Grants awarded to its students. Its student's average SEOG award was $3,100. At another institution whose SEOG funds were 5 percent of total Pell Grants, the average SEOG award was about $294.

Matter for Consideration by the Congress

If the Congress wishes to more equitably distribute SEOG funds among Pell Grant recipients, it may consider amending the Higher Education Act of 1965 to require that the Department of Education allocate SEOG funds to institutions proportionately based on the dollar amount of Pell Grants their students receive.

As you requested, we did not obtain written comments on this report from the Department of Education. We did, however, discuss its contents with Department program officials who generally agreed with its findings, but not with the change we are suggesting to the SEOG allocation process. These officials, from the Department's Office of Student Financial Assistance, added that the Department may still be considering whether the allocation process for the campus-based programs, such as the SEOG Program, should be changed. We incorporated their other comments where appropriate.

We are sending copies of this report to other congressional committees, the Secretary of Education, and other interested parties. This report was prepared under the direction of Linda Morra, Director of Education and Employment Issues, who can be reached on (202) 275-1655. Other major contributors to this report are listed in appendix II.

Sincerely yours,

Lawrence H. Thompson

Lawrence H. Thompson
Assistant Comptroller General

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Abbreviations

EFC	expected family contribution
SEOG	supplemental educational opportunity grant

SEOG And Pell Grant Funding for Selected Public and Private Institutions (School Year 1990-91)

Table I.1: SEOG and Pell Grant Funding for Selected Public Institutions (School Year 1990-91)

Dollars in millions

Institution	SEOG funding	Pell grant funding	SEOG as a percent of Pell funds
City University of New York	$4.7	$94.4	5.0
University of Minnesota-Minneapolis	1.7	11.6	14.5
Pennsylvania State University	2.9	19.8	14.8
Arizona State University	1.7	10.7	15.6
Rutgers	1.8	9.4	19.1
University of Michigan	1.4	7.3	19.2
University of Wisconsin-Milwaukee	1.6	6.8	23.4
University of Wisconsin-Madison	2.6	7.1	36.2
Prairie View A&M	1.6	2.9	54.5
University of Vermont	1.5	1.2	117.1

Table I.2: SEOG and Pell Grant Funding for Selected Private Institutions (School Year 1990-91)

Dollars in millions

Institution	SEOG funding	Pell grant funding	SEOG as a percent of Pell funds
University of Southern California	$1.7	$5.0	33.7
Tuskegee University	1.0	2.3	45.2
Cornell University	1.5	2.7	56.1
Boston University	1.7	2.9	59.5
Columbia University	1.0	1.7	60.0
Northeastern University	2.8	3.9	71.6
University of Detroit-Mercy	1.2	1.4	88.6
University of Pennsylvania	2.2	1.5	144.0
Carnegie-Mellon University	1.6	1.1	144.8
Northwestern University	2.0	1.2	164.4

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